



## NOTIFICATION

Re : Price Increase

Dated 23<sup>rd</sup> March 2017

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Further to my previous correspondence, after considerable market research & exploration, we now know the full extent of paper price increases from all container board paper mills. It has been a sobering exercise. The bottom line is that waste-based materials such as Test Liners and Fluting Mediums have already risen by 17-20% and Kraft by over 30%. The collective result of changes at the global, continental and UK level is seismic; suffice to say that we're in an aggressive sellers' market and - like everyone else - we are having to pay these increases now.

The bad news is that this will not end here and the Paper Mills have every intention of implementing further increases. With hefty double-digit increases of this magnitude, I am sure you will understand that we must increase our prices to sustain our business. It's a tough market for us all and you will not be surprised that we - like everyone else - don't have anything approaching these sorts of margins up our sleeve.

**Hence, we will increase our prices by 11% from the 3rd of April 2017 and a new price list will be issued to you shortly.**

**This will be followed up by a second increase to take effect in May or early June; the exact date and level of the increase will be notified in due course.** In taking a stepped approach we are trying to help our customers to adjust to dramatically higher paper prices, which are now the highest I have known them in my 37 years in the industry.

Even at this new level we will require the second increase before settling onto a healthy, sustainable commercial footing. This will also include urgently needed adjustments to accommodate the higher national living wage, which is in the process of rising by 40% over the course of this parliament (the next step change is in April).

This will doubtless be unwelcome news and I won't delve further into the background to this significant price adjustment at this stage. As an industry, we will all have to find ways of adjusting to these realities and stay strong. For our part at Onboard Corrugated, we will be investing heavily in our corrugators and materials handling over the next 4-5 months to enable us to best serve our customers in the years ahead. We have no intention of letting our customers down and will continue to do our best despite the fact that unusual circumstances this time ( Kraft production loss over million tons a year & currency exchange levels) have really strangled us for the time being.

Yours sincerely

**Paul Jundu**

**OnBoard Corrugated Limited**

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# Market Update

April 2017

# Overview

- Background to inflationary pressure in Europe
- Rising costs in the UK
- The containerboard market
- The UK sheet feeding market
- The UK box market
- Summary

# Background to inflationary pressure in Europe

- Strong containerboard demand in Europe
- Rising OCC (Old Corrugated Containers) costs thanks to strong demand in Europe and from China
- Some paper makers are reported to be running at a loss – they need price rises to become sustainable again
- European paper mills scheduling downtime for maintenance
- A strong element of exporting tonnage at higher prices is keeping supply of recycled containerboard tight (European stocks are down 12% year-on-year to 560,000 tonnes)
- Closure of significant Chinese containerboard capacity for environmental reasons – leading them to import from Europe
- A major issue at a UK Kraft liner mill means it has lost 250,000 tonnes of output. As a result the Americans are not exporting to Europe, which has caused a shortfall over here

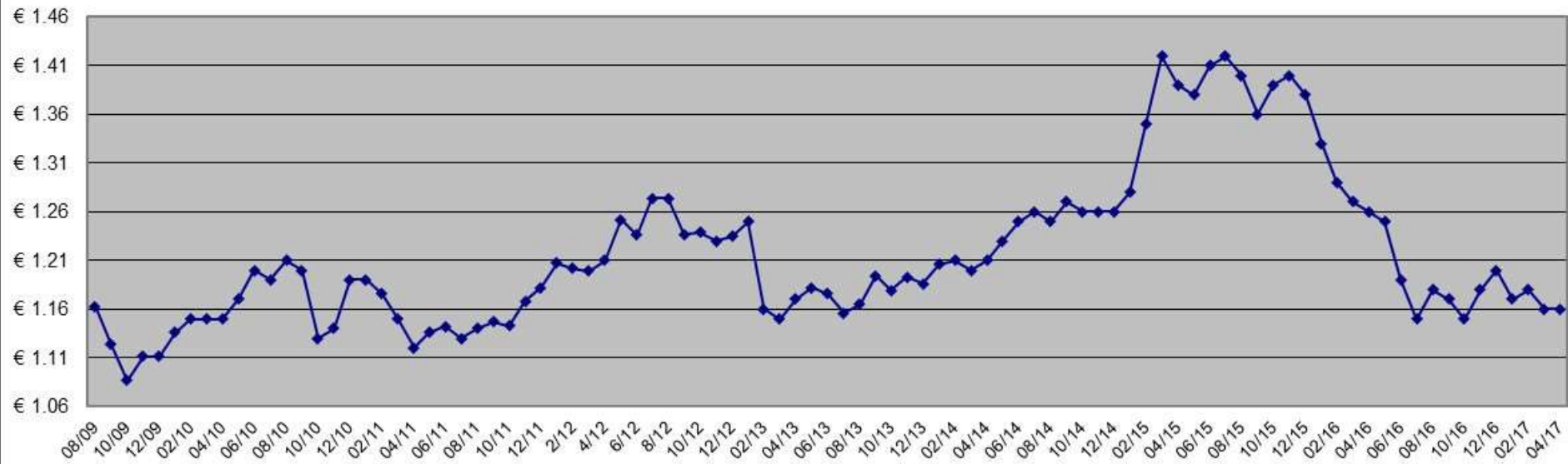
# UK national living wage

- Replaces the £6.50/hour minimum wage
- Set to rise by 40% to £9/hour by 2020
- Has taken many box plants to break even or even loss

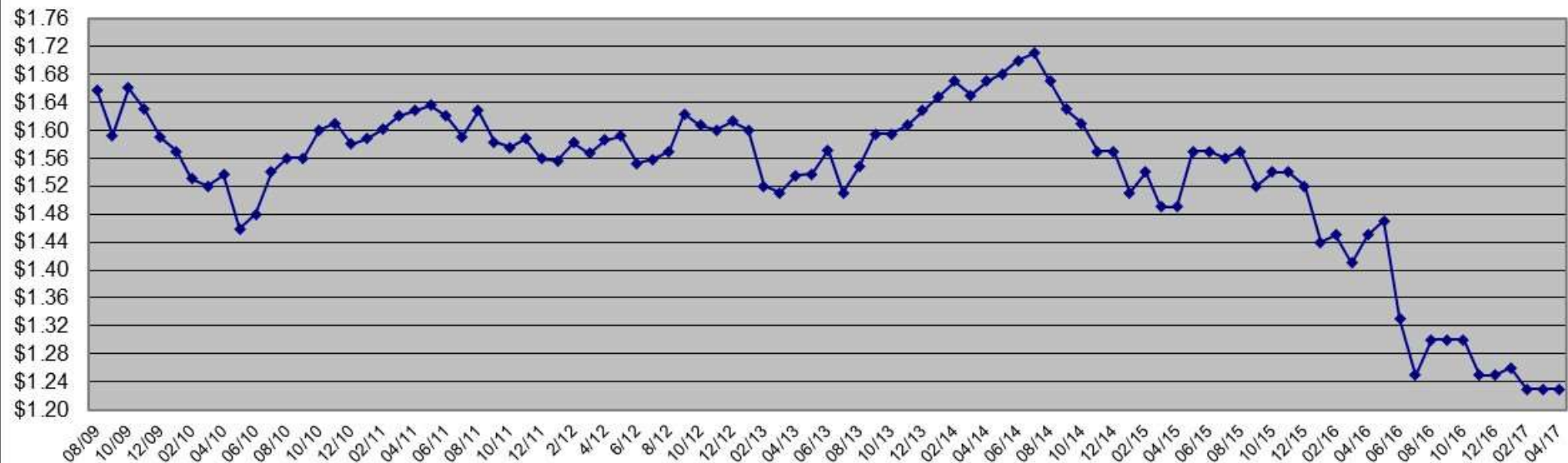


# Brexit prompted a 20% fall in value of sterling

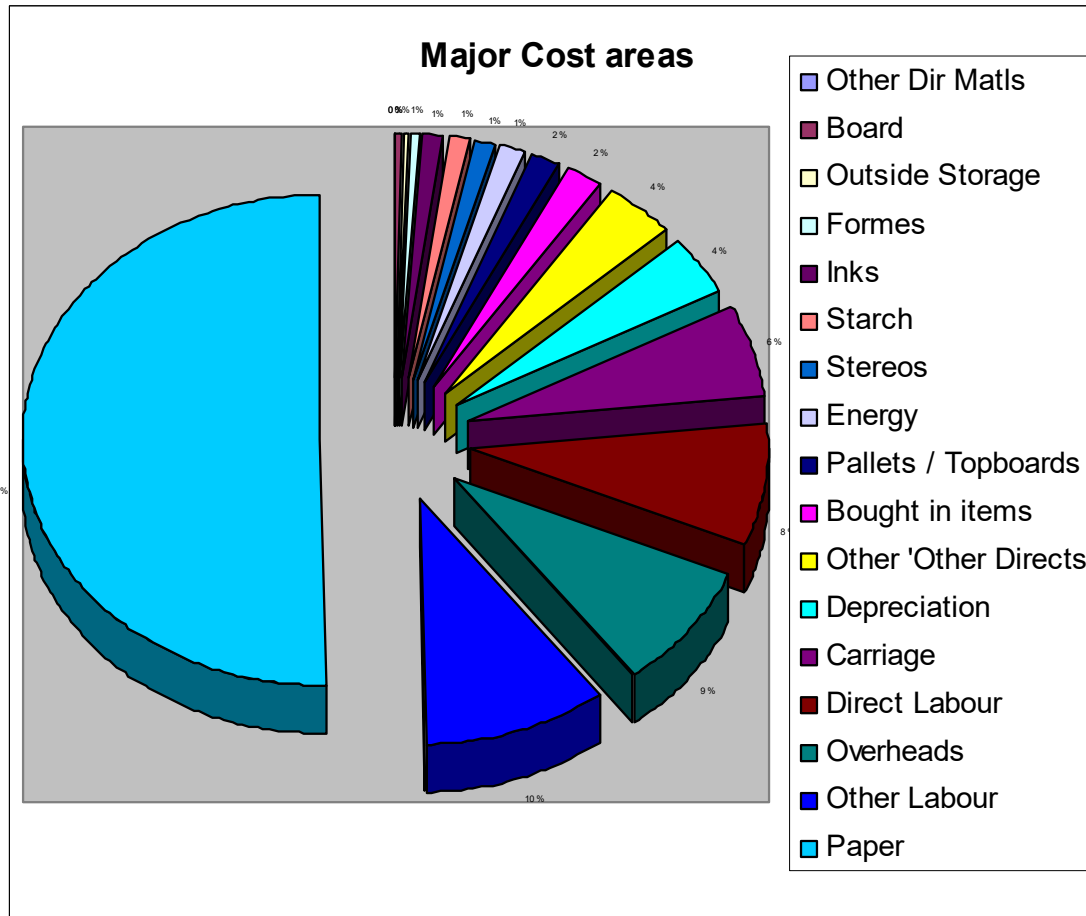
### Monthly Prices - Euro:Pound



### Monthly Prices - Dollar:Pound



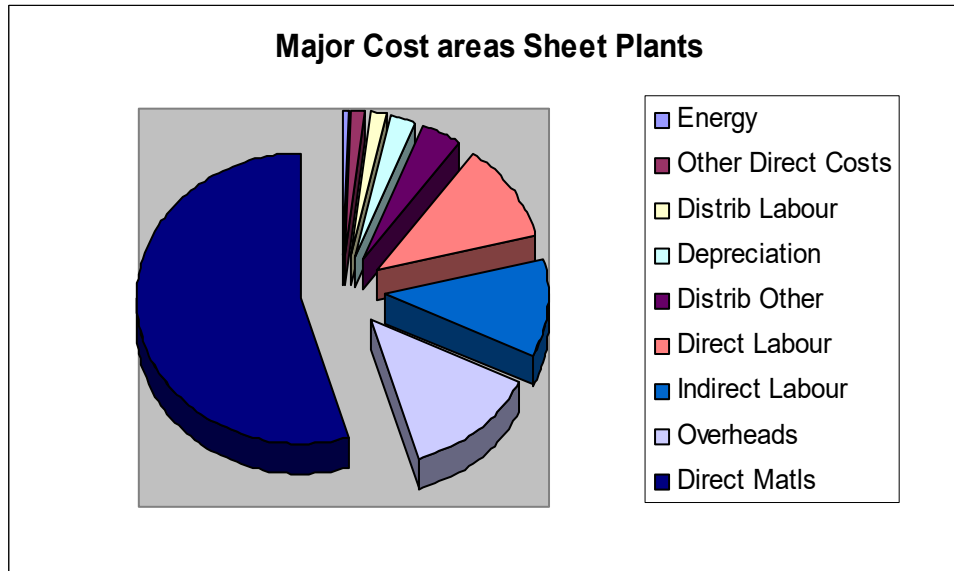
# Typical Major Cost Areas (Integrated)



## Cost levels

Cost levels	%
Other Dir Matls	0.0
Board	0.2
Outside Storage	0.4
Formes	0.6
Inks	1.0
Starch	1.1
Stereos	1.3
Energy	1.3
Pallets / Topboards	1.6
Bought in items	2.0
Other 'Other Directs'	3.8
Depreciation	3.9
Carriage	6.2
Direct Labour	7.9
Overheads	8.5
Other Labour	10.0
Paper	50.2
Total Costs	100.0

# Typical Major Cost Areas (Sheet Plant)

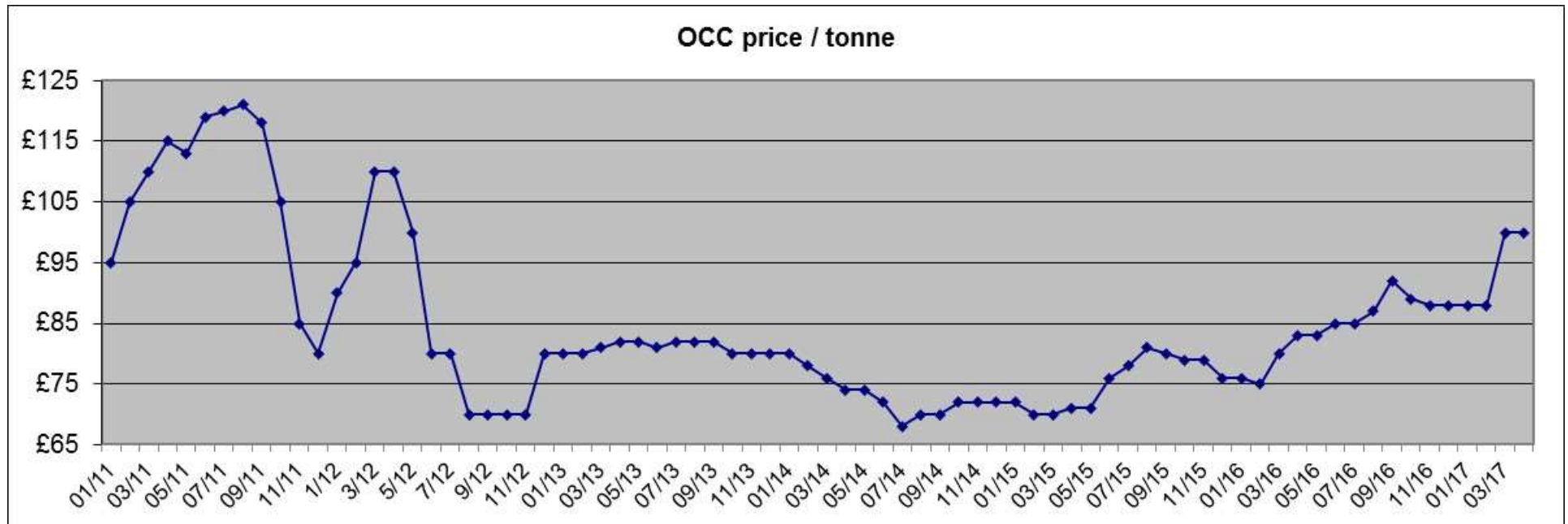


## Cost levels

	%
Energy	0.6
Other Direct Costs	1.4
Distrib Labour	1.6
Depreciation	2.6
Distrib Other	3.9
Direct Labour	10.9
Indirect Labour	11.0
Overheads	13.2
Direct Mats	54.8
<b>Total Costs</b>	<b>100.0</b>



# OCC prices are rising

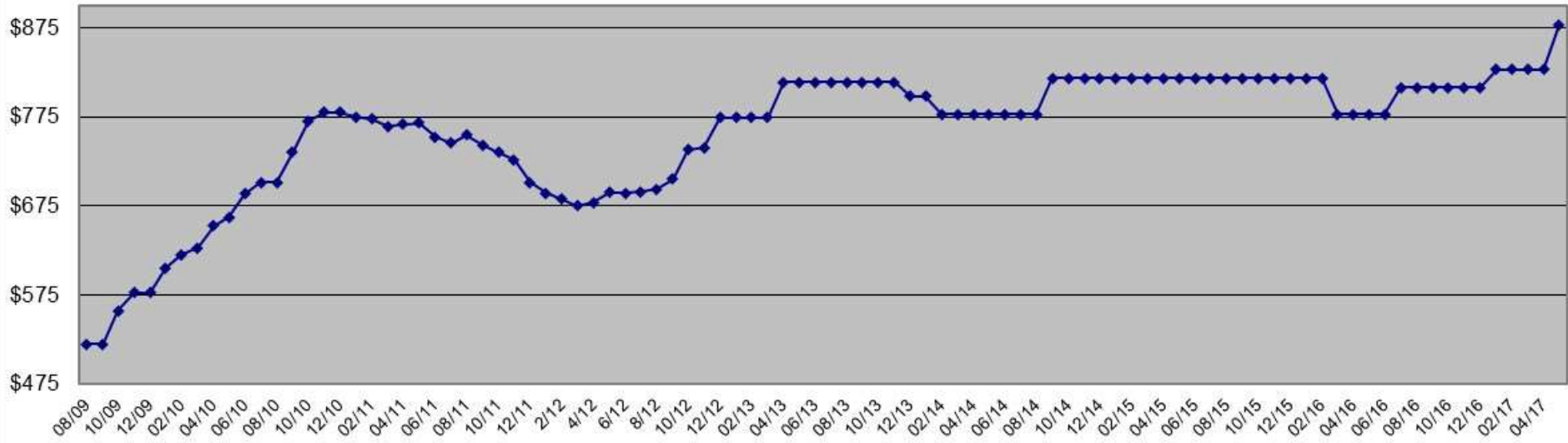


# The containerboard market

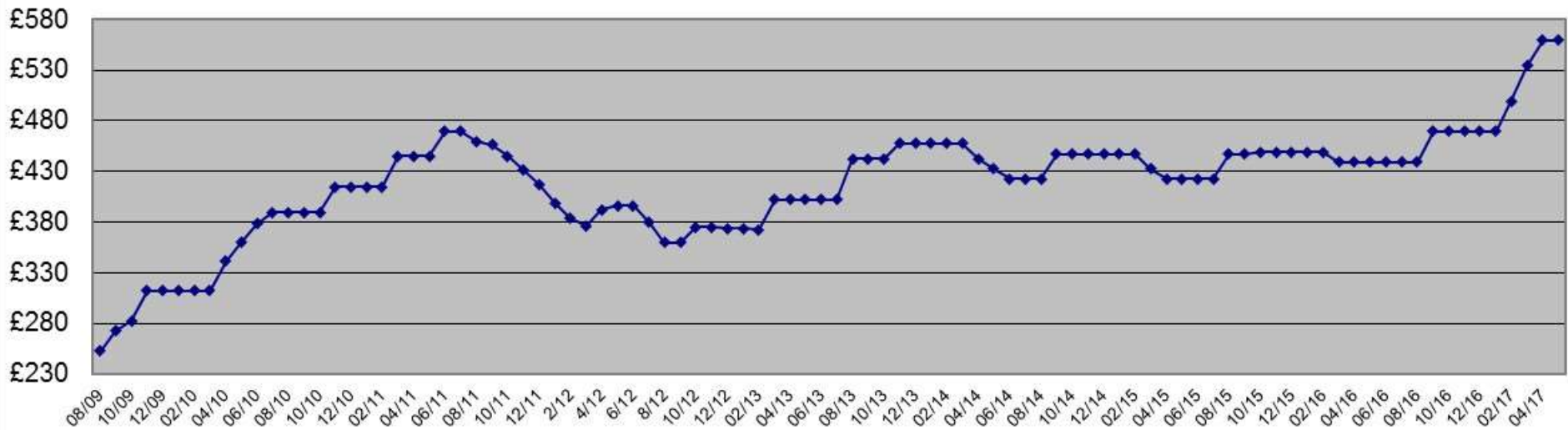
- Kraft liner prices are increasing
- Testliner prices are increasing

# Containerboard Prices

Monthly Prices - Kraft

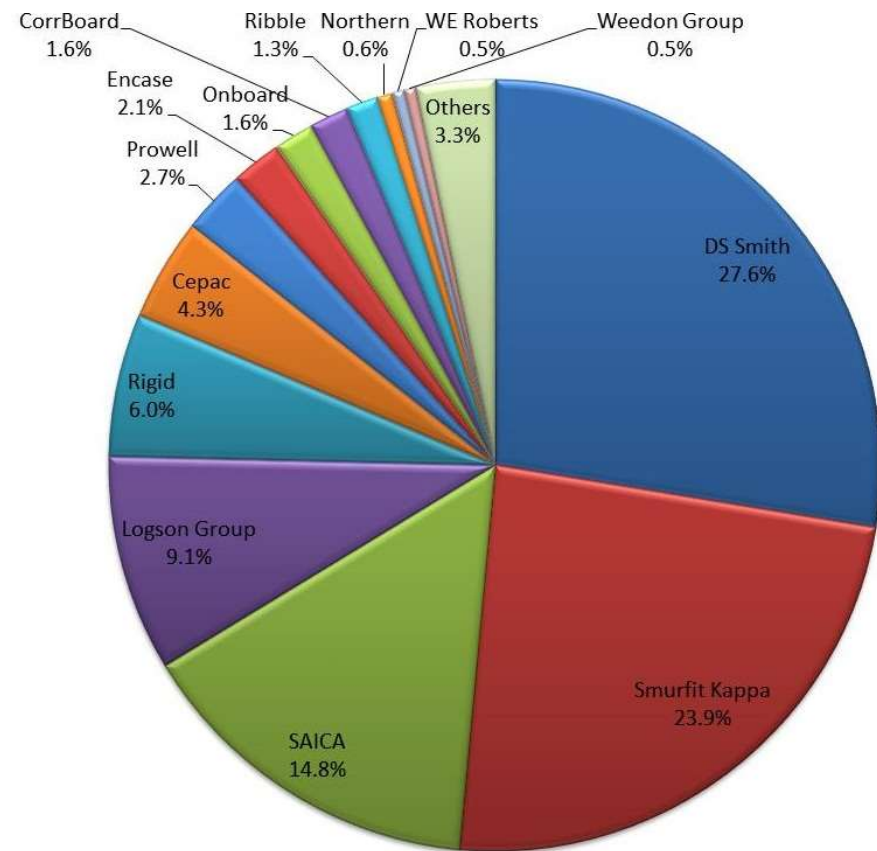


Monthly Prices - Test 3



# UK Box Market

- Consolidation will continue
- A number of sheet plants are looking to sell
- Large groups are looking to buy
- It's important to be supplied by a stable company who has security of supply during this difficult time of containerboard scarcity



# Summary

- There is not quite enough containerboard to go around
- Hence paper and board prices are rising significantly and we need to pay these to secure supply
- Labour costs (the second highest cost for box plants) will continue to rise
- We need to pass on these cost pressures to remain viable